Globalization and Inequality (Brazil, 2002)

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Looking at the recent past, what was "globalization", and what was not?

Regardless of who wins the debate on the ultimate benefits or malignancy of globalization, two facts seem evident. First, for most countries South of the Equator, the promises of progress and economic growth did not materialize so far. At best, their economies grew very little or remained stagnant, while others went bankrupt. Second, globalization of communications and information increased visibility and intolerance regarding problems of social and economic deprivation and inequity that may have existed for a long time, and may be even improving, but not fast enough; or may be worsening, but from unrelated reasons.

The combination of these two elements – little or no economic growth, and enhanced intolerance with deprivation and inequity – have led to a tendency to blame all current social, economic and cultural evils on "globalization". This is unfortunate, because, by definition, globalization is a process that transcends the ability of individual countries and policy makers to change it, and to be "against globalization" may be a good rhetorical argument, but not an effective way to move ahead. This situation is not very different from thirty years ago, when the problems of developing societies and economies used to be blamed on "international dependency" Indeed, there is reason to believe that the new globalization is often perceived as the old dependency in new clothes. An important difference is that the cold war realities that underlined the "dependency" rhetoric does not exist any longer, or is being replaced by an altogether different and more sinister type of international polarization).

This does not mean, of course, that globalization is something that can be dismissed. In the on-going efforts to explain what happened in Argentina, there are those that blame everything on the Argentineans themselves: the crisis was a consequence of their culture, their peculiar political arrangements, and their unwillingness to take the appropriate decisions; other countries do not have to worry. At the other extreme, Argentina is described as a country like all others, which tried for years to adjust to globalization and follow all the recipes of the International Monetary Fund, which was

unfortunate (perhaps for this reason?) to be the first to fall under the crisis that will eventually sweep the other developing economies. Neither approach is very helpful to understand what happened, and to devise appropriate policies for the future.

In these notes, we would like to reflect on the achievements and limitations of Brazilian social policies in the last decade on so, on the light of the international context of globalization. We will try to identify which issues, and the way they were handled, can be associated with the effects and impacts of global trends, and which ones are to be understood in terms of Brazil's internal and peculiar conditions. From this, we may come to some conclusions about appropriate policies for the future.

Brazil enters globalization: Collor

Brazil's entrance in the globalized world is attributed to the first year of Fernando Collor's presidency, and his description of the cars produced by the Brazilian automobile industry as "carroças", old mule-driven farm carts. His policies, which ended up in disaster two years later, were to stabilize the currency at any price, by freezing the bank assets of the population; to lower industrial tariffs and non-tariff protection to local industries; and to dismantle the public service, through across-the-board dismissals and budget cuts. Underlying all this, there were elaborate procedures to generate quick backs from himself and his cronies from all kinds of public contracts and dealings. To understand the initial acceptance of his policies, it is necessary to remember the country's previous ten years. After the grandiose ambitions of making Brazil and world power, in the 1970's the country witnessed, between 1980 and 1985, the gradual withdrawal of the military from power amidst growing indebtedness and inflation, and five years of no policy under the first civilian president in twenty years, which governed by distributing power to all interest groups according to their relative strength, and presided the rewriting of the Brazilian Constitution, known by the enthronement of social rights and limitations to the powers of the executive branch.

Collor was the first President to be elected in Brazil by popular vote since 1960, bringing an image of youth, renovation, anti-corruption, and an attitude which is still very popular in the country, of being "against everything that is there" ("contra tudo o que está aí"). The opening of the Brazilian economy to international competition had important impacts in giving to the population better access to consumer goods (including better cars, personal computers and electronic consumption goods). Economic stabilization, however, required long-term policies Collor did not have the inclination or competence to

implement, and the exposure of his corrupt practices led to his impeachment in 1992, the first time a Brazilian President was deposed under popular pressure, and by legal means.

The fight against corruption and the reorganization of public finances.

Collor's impeachment was the first and more dramatic episode in a long sequence of actions and decisions aimed to reduce the high levels of corruption that are still present in the Brazilian public sector. Other episodes included the dismantling, in 1993, of the gang of politicians that controlled the budgetary process in Congress (the so-called "dwarfs of the budget"); the impeachment and arrest of judges and politicians involved in approving resources for public works that ended up as deposits in their accounts in Switzerland or the Cayman Islands; the recent impeachment of the President of the Brazilian Senate; the closure of agencies such as SUDAM and SUDENE, well-known sources of political patronage and corruption.

The pessimist interpretation of these events is that they are just indicators of a much deeper and ingrained corruption culture that permeates Brazilian governance, and flares up each time a scandal reaches the press. A positive interpretation is that, thanks to the freedom of the press, a new generation of judges and public prosecutors, Brazilian society is becoming less tolerant of corrupt behavior. Another view is that corrupt practices among politicians and civil servants is just one aspect of a broader pattern of financial disorganization and inflationary practices that prevailed in Brazil until recently, and still remains in many sectors. With public accounts and expenditures out of control, the distinctions between corruption, patronage and sheer inefficiency are academic at best. From this point of view, the control of extreme forms of public corruption that started with the impeachment of Collor in 1992 can be seen as part of a broader effort to bring balance, control and transparency to the use of public resources, which was, probably, the most important achievement of the Fernando Henrique Cardoso's eight years of governance.

The Cardoso period started, in practice, in 1994, the year before his investiture, with the success of the "real" plan of economic stabilization. Less visible, but probably more important, were the efforts to turn off the valves of irresponsible spending that fuelled not only inflation, but the whole workings of Brazil's political system. Achievements in this area include the closure of the state banks, the renegotiation and control of the public debt of states and municipalities, the privatization of large, inefficient and wasteful public companies, and the new law of fiscal responsibility for

governments at all levels. Important administrative and management reforms were required and implemented, starting with the strengthening of the Central Bank, and the production of reliable and transparent indicators on the revenues and expenditures of the public sector.

These efforts to reduce irresponsible spending and corruption were an internal response to the unbearable situation that prevailed during the eighties, leading the country to hyperinflation and the dismantling of the public sector. Many sectors in society contributed to this change, including the judiciary sector and the press, but the merits of the financial authorities during the Cardoso period, at the Central Bank and Ministry of Economics, cannot be diminished, even if the Cardoso government, as a whole, has not always been exempt from recurring to patronage to maintain its congressional support. There is still much to be done in this area, including the need to bring the system of social security into balance, and the creation of proper mechanisms to control petty and not so petty corruption that is endemic in many sectors of government at the federal, state and municipal level. Little was achieved in the reform of the political party system and in the workings of the public sector, to make them less susceptible to corrupt practices of different kinds.

As such, these policies had nothing to do with "globalization", except that, as Brazil tries to increase its presence in the international scene, it has to present himself as an honest and clean player. At the same time, some of the policies implemented in those years are part of the standard recipes prevailing in international agencies such as the IMF and the World Bank, including the privatization of public owned companies, and the efforts to keep the public finances in equilibrium.

The opening of the economy

The notion that, before the 1990s, the Brazilian economy was closed to foreign capital and investments is completely erroneous. The most important industrial sector in the country, the automobile industry, has always been owned by some of the world's largest companies – GM, Fiat, Volkswagen, Ford, Chrysler. Foreign companies were also strong in energy, chemicals, pharmaceutical, and many other sectors. IBM was always the major supplier of information technology, even in the years of "market reserve" for personal computers. However, these multinational companies had to coexist with a select group of state-owned corporations, in oil, electricity, telecommunications, mining, steel production, and others; the Brazilian financial system was dominated by state-owned

banks, and closed to foreign firms; high tariff and non-tariff barriers protected both the Brazilian and the multinational companies installed in the country; and the participation of the external trade in the country's economy was relatively small. Economists still debate whether this arrangement, known as a policy of "import substitution", and the companies and expenditures it generated, was the cause of the stagnation that plagued the country in the eighties, or an asset that had proved its worth in the seventies, and could work again in the nineties. The fact is that, in the nineties, most public companies were privatized, tariffs were lowered, and foreign banks were allowed to offer their services to the Brazilian public. Brazil became a leading recipient of foreign direct investment, and its participation in the international market started to increase. The entrance of foreign firms, bringing in new labor-intensive technologies, led to a gradual decrease in the number of people employed in the industrial sector, and a process or merges and acquisitions that reduced the relate weight of Brazilian-owned corporations in the country.

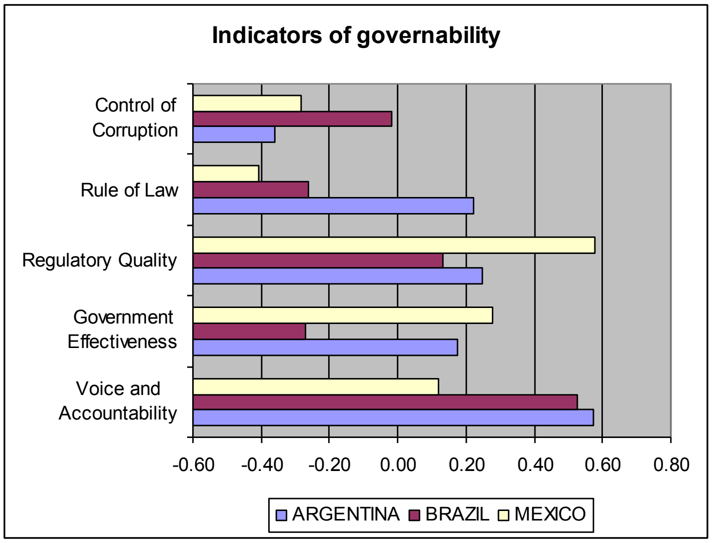
Here, again, we can ask whether the opening of the economy to the international market and foreign investments was a consequence of "globalization", or a simple response to the problems created by years of "import substitution", which were also years of inflation and growing public fiscal deficits. This issue is often discussed in terms of comparisons between Brazil and Korea and other "Asian Tigers", with the later being shown as the positive examples of the benefit of market oriented, internationally competitive policies. These comparisons are very insightful, and, when properly done, they reveal differences that go much deeper than simple responses to international market conditions, such as Korea's success in educating its population, a much better income distribution, and governments which were much more interventionist and policy driven than the Brazilian ones. The financial troubles of Japan and other Asian tigers, on the other hand, showed that there is no easy protection against the economic impact of truly globalized trends.

The main core of globalization - finance

We can sum up these notes so far by saying that neither the restructing of the public sector nor the opening of the economy were, at the core, responses to globalization, but reactions to internal needs and constraints. At the risk of simplifying a very complex question, we can say that the true economic cores of globalization, that have a real and sometimes devastating impact in countries such as Brazil or Argentina, are the global financial market, and, as a related trend, the growth of the "knowledge

economy" and the international concentration of capital and ownership of large multinational corporations. Since we could not possibly try to summarize these two trends here, let us mention just one of its effects in Brazil, with is the extraordinary high interest rates maintained by Brazil's monetary authorities – around 18% a year at this writing, the largest or second largest in the world. The justifications for high interest rates are well known – to keep inflation under control, to make the country attractive to foreign investments, and to keep economic growth under control, limiting ports and deficits in the balance of payments. The negative and long term effects are also well-known – a sluggish economy, lack of resources for improved social policies, and a growing public indebtedness, requiring high interest rates to be maintained, and so on. Would not a lower interest rate, but still high by international standards, have the same positive effects, without the costs? The answer seems to be positive, but the difficulty is the possible perception that a significant change in interest rates could produce in the financial market, witch is already nervous with the Argentine crisis and other uncertainties of the world economy. It is possible to compare the cautious policy on high interest rates to the policies that kept the Brazilian currency over-valuated for so long, until early 1999. In both cases, the aim was to maintain the country's image as a reliable and profitable partner in the global economy, thus avoiding the devastating effects of financial scares and monetary speculations. It is the same motivation, incidentally, that led Argentina to establish its currency board, making the country look much more effective than the Brazilian one at the eyes of international observers. For a while, it worked, as indicated in the chart below.[1]

[1] Kaufmann, Kraay, and Zoido-Lobaton 2002.



The second core of globalization: economic concentration and the "knowledge economy".

Globalization in the "real" economy, the production and marketing of goods and services, is usually characterized by two trends, the concentration of ownership and the growth of knowledge intensive technologies and products. They are linked, since, at least in some fields, like in the pharmaceutical industry, knowledge intensive production requires large investments, which favors concentration. Concentration, however, is also an effect of globalized financial markets, with or without knowledge-intensive requirements. The main effect of these two trends in open, not well developed economies, is to divide them into two sharply divided segments, one living in the globalized world of high technology, fancy consumption goods and dollar prices, and the other living in low productivity, low wages and lack of stable sources of income. Dual economies of this type have always existed in colonial and post-colonial societies, and the existence of "two Brazils" have been the subject of many famous books, starting with Inácio Rangel's "Dualidade Básica da Economia Brasileira" (Rangel 1957) and Jacques Lambert's "Les Deux Brèsils" (Lambert 1971), and was central to the "modernization" literature of the fifties and sixties. The expectation was that, as the modern side of the economy grew, it would gradually absorb and eliminate its "traditional" side. What we see, however, that is that modernization in its current version, globalization, is powerful enough to destroy the "traditional" side of the economy and society, but not powerful enough, at least not so far, to integrate those displaced from "traditional" activities into the modern ones. Moreover, many sectors that used to be considered "modern" in previous years – public owned companies, branches of public service, research institutions, social welfare

systems, even privately owned industries and services – become "traditional", or at least obsolete, under the impact of globalization, and led to disappear or set aside by new services, agencies and institutions. This situation applies both to countries with truly traditional segmentations, like the Andean countries or South Africa, and to Brazil, which has a long history of keeping the majority of its population outside the benefits of economic development and public welfare.

Globalization, poverty and exclusion

Is Brazil, then, getting poorer because of globalization, as many have argued? The table below, taken from Brazil's household surveys, shows that this conclusion may be misleading:

Indicadores Sociais, 1992-1999		
esperança de vida ao nascer (anos)	1992	1999
homens	62.4	64.6
mulheres	70.1	72.3
taxa de mortalidade infantil (por mil)	43.0	34.6
taxa de analfabetismo, pop > 15 anos	36.9	29.4
domicílios com agua canalizada	83.3%	89.20%
com esgoto sanitário	48.0%	52.50%
bens de consumo:		
TV a cores	46.50%	79.50%
Geladeira	71.30%	82.60%
Freezer	12.20%	19.60%
Máquina de lavar roupa	24.00%	32.70%

These figures show that, in spite of the low rates of economic growth, the basic social indicators of the Brazilian population kept improving in the 1990s, in terms of health, education, housing conditions and access to consumer goods. Other positive indicator is the universalization of access to basic education, achieved in the nineties. These indicators are associated with the growth of urbanization, the extension of public services, and the reduced prices of consumption goods. But they are not developing fast enough, and come together with other, worrisome indicators, not reflected in these statistics: urban violence, the low quality of public education, structural unemployment, environment degradation, and the bankruptcy, current or projected, of crucial social safety nets, such public health and the provision of retirement benefits. They come together, also, with the persistence of income inequality, which seems to be a permanent feature of Brazilian society. The Cardoso government made a point in stressing its commitment with social policies, expressed even in one of the government's official slogans, "tudo pelo social". However, the consensus is that the achievements in this area

were not many, and bear no comparison with the most evident achievements in economic stability and housekeeping. How much of this situation is a consequence of globalization, and how much is it due to unrelated, internal conditions in Brazil?

Globalization has hindered social policy and social improvement in different ways. The economy did not grow, meaning that few new jobs were created, and little money was left in government hands for the implementation of social policy. The introduction of new technologies and industrial concentration reduced the number of stable working posts, displacing many workers from the organized labor market. Most important, perhaps, was the fact that the external instability and unpredictability, and the congressional battles to pass legislation considered essential to the management of the economy, consumed most of the attention and energy of the government leadership, leaving little space for more consistent initiatives in the social sphere.

Critics of the Cardoso government go to the point of stating that he "forgot" the social sphere. This is unfair, and a disregard for important achievements in the areas of education, health, land settlements, and the distribution of benefits and support to the poorest segments of the population. Most or all policies in this area, however, were based on the increase in the distribution of benefits, based on new taxes or better use of existing resources. Examples are public health, financed with resources from IPMF, a tax on bank transactions, and the Fundef, a new procedure to transfer educational resources to states and municipalities. Several attempts to change the existing welfare and social policy institutions met with strong political resistance, and were abandoned after defeat or small, symbolic but ineffectual victories. Examples are the reform of the social security system, the reform of higher education, the reform of the labor laws, and the reform of the civil service, which would be a precondition to improve the competence and agility of the public sector. It is much easier to introduce institutional reforms in periods of economic abundance than in periods of scarcity. It is unquestionable, for instance, that Brazil needs to change its public retirement system, which is very expensive, provides excessive benefits to a few and very limited benefits to most, and is not viable in the long run. It is difficult to convince the public, however, of the good intentions of reforming it, when the only thing that appears is the government's effort to cut its expenditures and reduce the benefits it currently pays to the old. In another example, it seems obvious that a more flexible labor legislation would generate more employment and formal jobs, but proposals for change are perceived as efforts to limit and curtail existing rights, and are therefore rejected.

In short, globalization places some limits in what can be done in social policy, but the consensus among specialists is that there is much that can be done at the current level of expenditures and economic development, to reduce inequity, improve public services, and raise significant segments of the population out of the condition of extreme poverty. This would require, however, clear ideas of what to do, the ability to convince public opinion and the Congress to the need to change legislation, and government competence to carry on the reforms and implement the new policies. The explanations for why this is not done has much more to do with Brazil's internal conditions than with the international context of globalization.

What to do with globalization?

We have argued in these notes that globalization is not as overwhelming as it is often considered, and leaves important spaces for national policies of different kinds, which are implemented or not because of internal conditions in the country. This does not mean, of course, that he impact of globalization is indifferent, or that there is nothing the country can do about it. The experiences of Mexico, Chile, Argentina, Brazil, Venezuela and other countries in the region show that there are different ways for a country to participate in a global economy, and some choices produce better results than others. To change the way the "global word" functions is much more difficult, but there is always room for change, and competent diplomacy and participation in international institutions is of crucial importance. Brazil has a tradition of competent diplomatic presence, and the Cardoso regime placed a special emphasis on the enhancing Brazil's presence and influence in the world. The results of such an active external policy are still to be seen, and a proper implementation of internal social policies will be an important trump to hold in the demands for a less erratic and unfair global economy.

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